PolyPeptide GROUP

Annual Report 2021

A leading CDMO for complex peptide manufacturing

Innovation – Excellence – Trust

Editorial

Continued growth momentum

Peter Wilden, Chairman of the Board of Directors, and Raymond De Vré, Chief Executive Officer

It is with pleasure and satisfaction that we present the first full-year report of the PolyPeptide Group AG. In a business environment driven by increasing investments into R&D in the pharmaceutical sector, the Group continued to demonstrate strong growth. PolyPeptide remains dedicated to providing high quality products and services to all its customers. In doing so, we are proud to contribute to the health of millions of patients around the world.

2021, an exceptional year

In many ways, 2021 was an exceptional year for PolyPeptide. While completing a successful IPO and listing on SIX Swiss Exchange and bringing in a new CEO, the Group was able to keep a strong growth momentum. Revenue in 2021 grew by 26.5% versus 2020 to EUR 282.1 million, and the result for the year increased by 50.8% to EUR 47.3 million (with basic EPS of EUR 1.47). Adjusted EBITDA for the full year of 2021 reached EUR 88.2 million with a margin of 31.3%, up by 3.5 percentage points, reflecting continued strong operating performance.

While partially benefiting from a favorable impact related to accelerated customer projects in response to the coronavirus pandemic, this strong result reflects well on the technical capabilities, execution mindset and strong customer focus of the Group. We are committed to long-term relationships with our customers as we partner with them on the development and commercialization of their therapeutic products. Consequently, we have further expanded our active custom projects pipeline to 196 projects by the end of 2021. In view of the promising late-stage pipeline, we invested a record EUR 76.7 million, or 27.2% of annual revenues, into the modernization and expansion of our manufacturing infrastructure.

We have also significantly advanced our capabilities in the field of oligonucleotides. The R&D and GMP pilot plant facility in Torrance (California) has been built out, a dedicated team has been hired, and the first customer contract was signed towards the end of 2021.

Amid a busy 2021, PolyPeptide has maintained a strong quality track record, with several inspections by regulatory authorities from multiple countries, including by the US FDA, at four of our manufacturing locations, with no critical or major observations.

Following the CEO change in April 2021, we have continued to strengthen the Executive Committee of the Group, with the appointment of a General Counsel and a seamless internal leadership transition for the head of Global Sales and Marketing.

A full agenda for 2022

We have come a long way in 2021, and we look forward to continuing our journey in 2022. It is planned to further grow through the expansion of our pipeline, by strengthening the manufacturing infrastructure and by striving to be the preferred partner to the industry. We will seek to accelerate our momentum through the further development of the oligonucleotide API and peptide generics API businesses. In fostering our unique management culture and the organizational efficiency, we will keep working on the right balance between our "OnePolyPeptide" priority and local diversity as well as integration of systems and processes.

In 2021, we also decided to formalize our approach to environmental, social and governance (ESG) matters by conducting a materiality assessment and establishing an ESG agenda for the whole Group. As part of this program, we will emphasize (1) green chemistry, (2) people development and (3) supply chain engagement. As part of the green chemistry program, we will focus on innovation efforts to reduce solvent consumption and to further develop circular chemistry concepts. We also plan to conduct a carbon footprint assessment in order to establish a baseline for further improvement.

Outlook for 2022 and proposed dividend

While the recent dramatic changes in the overall political environment in Europe can not be ignored, they are currently not expected to have a material direct impact on PolyPeptide. We sincerely hope that peace can be restored soon.

For 2022, PolyPeptide targets revenue growth of 12-14% with a targeted adjusted EBITDA margin of around 30%. PolyPeptide will continue to invest in modernizing and expanding its infrastructure with capital expenditures as percent of 2022 revenue expected to be above 25%.

Thanks to PolyPeptide's strong performance in 2021 and in line with our dividend policy, we plan to propose to our shareholders at the Annual General Meeting in April a cash distribution of CHF 0.30 per share.

We sincerely thank our shareholders, as well as all other stakeholders for being part of this exciting year and for their trust in PolyPeptide moving forward.

Last, but not least, on behalf of the Board of Directors and the Executive Committee we would like to thank all our colleagues for their continued passion, dedication, and hard work in 2021.

Zug, 15 March 2022

Sincerely,

Peter Wilden
Chairman of the Board of Directors

Raymond De Vré
Chief Executive Officer

Key Figures[1]

kEUR	2021	2020	Change
Revenue	282,126	223,033	26.5%
Custom Projects	167,006	101,872	63.9%
Contract Manufacturing	89,600	100,108	-10.5%
Generics & Cosmetics	25,520	21,053	21.2%
EBITDA	84,848	61,923	37.0%
Adjusted[2] EBITDA	88,199	61,958	42.4%
Adjusted[2] EBITDA in % of revenue	31.3%	27.8%	3.5 ppts
Operating result (EBIT)	64,165	44,378	44.6%
Operating result (EBIT) in % of revenue	22.7%	19.9%	2.8 ppts
Result for the year	47,258	31,335	50.8%
Result for the year in % of revenue	16.8%	14.0%	2.7 ppts
Earnings per share (EUR), basic	1.47	1.04	41.0%
Return on net operating assets (RONOA)	21.0%	18.2%	2.7 ppts
Cash and cash equivalents	136,303	17,208	–
Net cash flow from operating activities	57,352	49,480	15.9%
Capital expenditures	76,652	48,183	59.1%
Capital expenditures in % of revenue	27.2%	21.6%	5.6 ppts
Total assets	595,038	375,975	58.3%
Equity ratio	70.8%	47.3%	23.5 ppts
Employees (# of FTEs, average)	1,041	910	14.4%

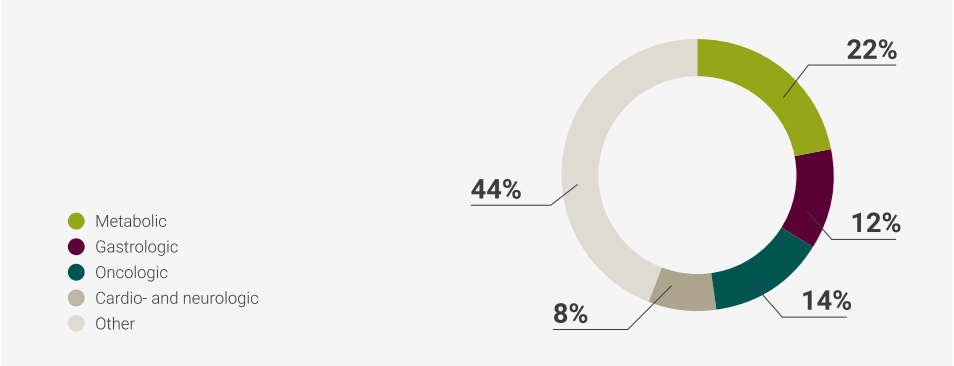
[1] This table and report include references to operational indicators, such as customer projects, and alternative financial performance measures (APM) that are not defined or specified by IFRS. These APM should be regarded as complementary information to and not as substitutes of the Group's consolidated financial results based on IFRS. For the definitions of the main operational indicators and APM used, including related abbreviations, as well as for selected reconciliations to IFRS, please refer to the section "Definitions and reconciliations" of this report.

[2] Adjusted EBITDA excludes one-off IPO costs of EUR 5.7 million, partly offset by US government loans of EUR 2.4 million waived in context of the coronavirus pandemic.

Profile

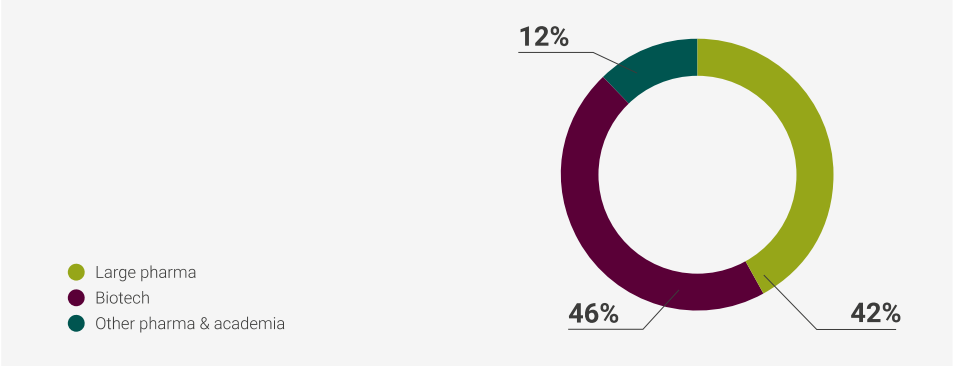
Helping patients across multiple diseases

Revenue split by therapeutic areas[1]



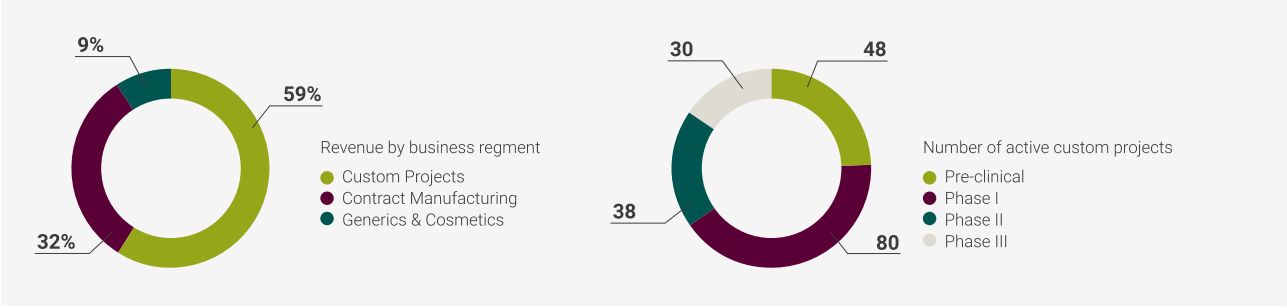
Servicing a diversified customer base

Revenue split by customer type[1]



Solutions along the value chain

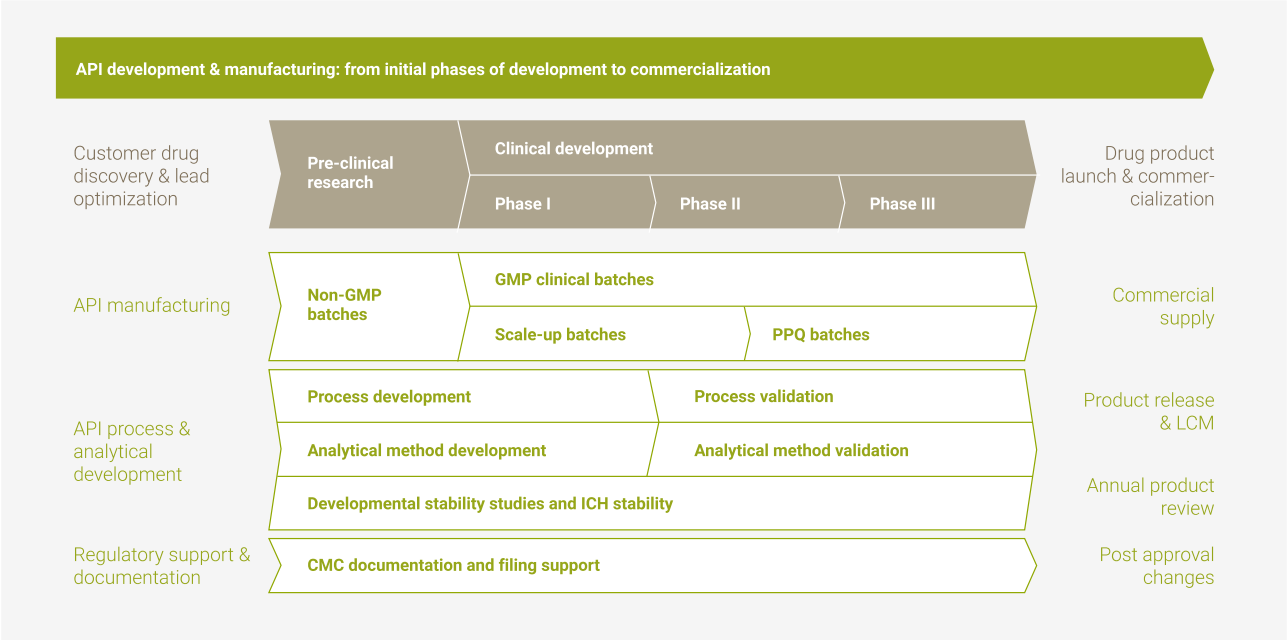
Revenue split by business segment and number of active custom projects by stage of development[1]



[1] Approximate splits as per 31 December 2021.

Business model

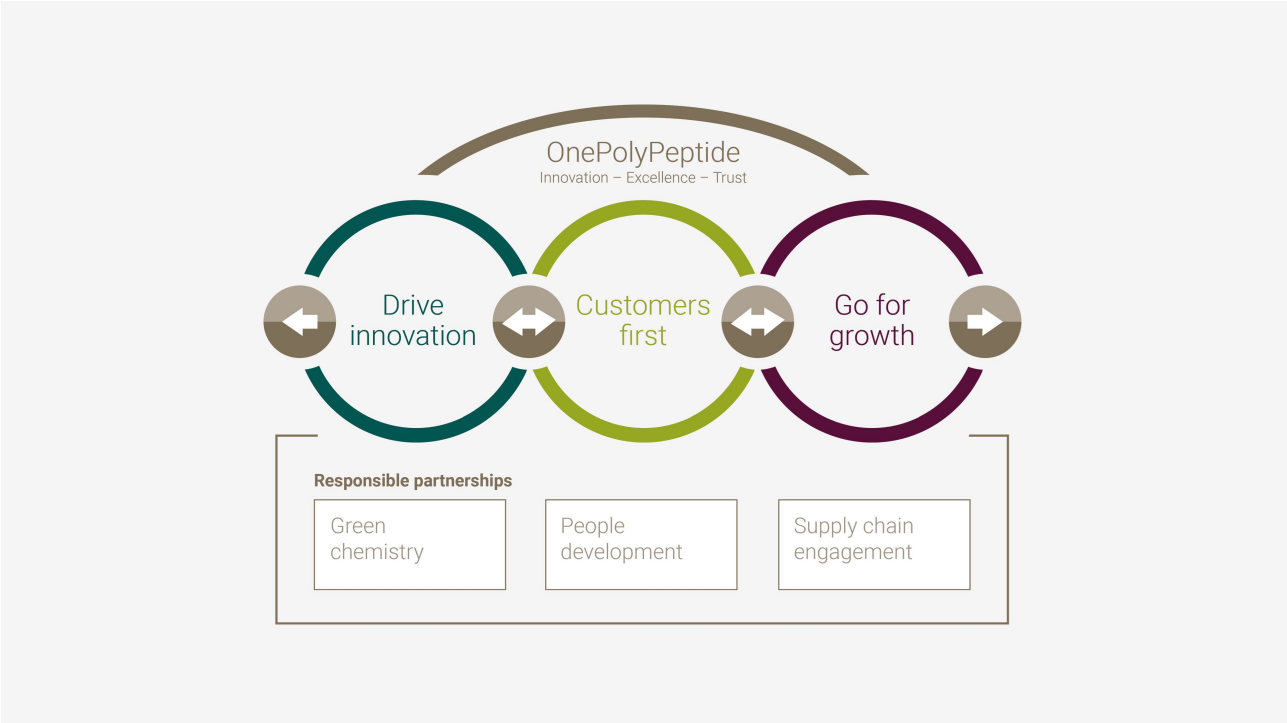
Providing expert knowledge for peptide-based API's across the entire value chain



API – Active Pharmaceutical Ingredient; CMC – Chemistry, Manufacuring & Controls; GMP – Good Manufacturing Practice; ICH – International Council for Harmonization; LCM – Life Cycle Management; NDA – New Drug Application; PPQ – Process Performance Qualification.

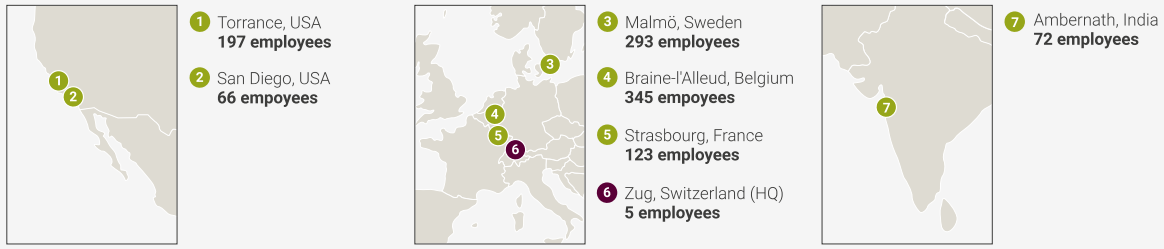
Integrated strategy

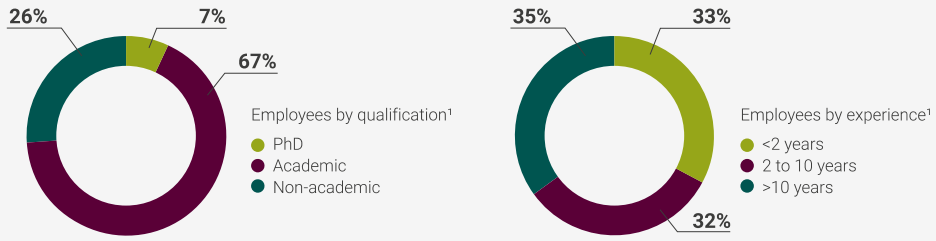
Striving to be the preferred long-term partner for customers



Footprint and customer proximity

Experienced team[1] and GMP-certified manufacturing network

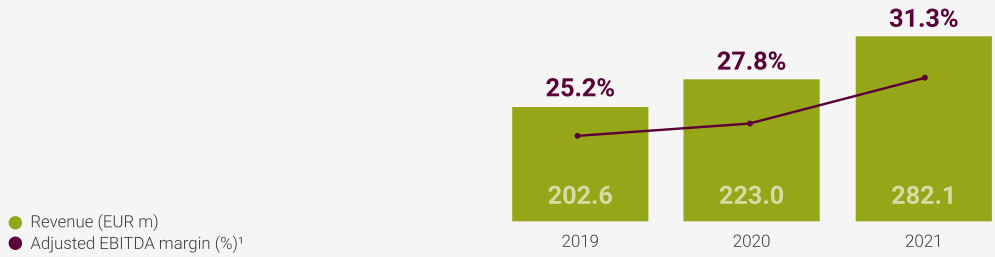




[1] Data based on headcount as of 31 December 2021.

Striving for profitable growth

Building on favorable market trends



[1] For a reconcilliation to the nearest IFRS line item, please refer to the section “Definitions and reconciliations” of this report.

Strategy

Company profile

PolyPeptide is a globally active contract development and manufacturing organization (CDMO) specializing in the manufacturing of peptides used as the active pharmaceutical ingredient (API) in therapeutic products. It also produces a range of peptides used in cosmetics. The Group mainly serves pharmaceutical and biotech companies as well as academic institutions.

The Group's history dates back to 1952, when it began the commercial manufacturing of therapeutic peptides in Malmö, Sweden. Since then, it has manufactured over 1,000 GMP peptides and has developed into a full-service provider with differentiated technologies and capabilities to manufacture the most complex and innovative peptides. Through its network of six Good Manufacturing Practice (GMP)-certified sites in Europe, the US and India, it offers products and services along the entire peptide API value chain, including comprehensive analytical and regulatory support. Its activities cover the full life cycle of the customers product, from early pre-GMP development to phases I to III of clinical development up to product approval and commercial production for originators and generic suppliers. In the United States the offering also includes neoantigen peptides to support personalized cancer therapies. Following efforts initiated in 2019, the Group in 2021 added oligonucleotides to its offering given the increasing relevance and substantial R&D investments in this therapeutic modality.

For further details on the footprint and the business model of the company, please refer to the chapter Profile.

Market position

According to a market study commissioned by PolyPeptide and completed in early 2021 (the Study), the peptide therapeutics market is estimated to grow with a compound annual growth rate of 7% over five years reaching approximately USD 44 billion by 2025, driven by, among others, the increasing number of expected approvals of new peptide-based therapies and the growth of underlying patient populations. Therapeutic areas continue to broaden and include metabolic disorders, oncology, infectious diseases, orphan diseases, cardiovascular, neurology or gastro-enterology applications. As of the end of 2021, circa 81 peptide-based therapies were approved by the US Food and Drug Administration (FDA), with approximately 250 in clinical development (phases I to III) and around 500 in pre-clinical development.

According to the Study, the peptide API market is estimated to represent 5% to 8% of the peptide therapeutics market, of which around 65% is outsourced. With the continued outsourcing of peptide API development and manufacturing to specialized CDMO's, the outsourced peptide API market addressable by PolyPeptide is expected to grow by approximately 10% per annum to USD 1.9 billion by 2025. Based on available market data for 2020, the estimated market share of PolyPeptide was between 20% and 25%, leaving the company placed as a market leader, second to its main competitor.

Integrated strategy

The Group's mission is to help customers secure regulatory approvals and to successfully launch and commercialize their products in the market, while being flexible to adapt to the inherent uncertainties of drug development.

Building on its core values of "innovation", "excellence" and "trust", PolyPeptide aims to be the preferred long-term partner for all its customers, who typically expect deep operational experience and scientific knowledge, coupled with a relentless focus on quality and a high delivery performance. As a multinational company with around 1,100 engaged and experienced employees at the end of 2021, PolyPeptide also emphasizes an agile, open and collaborative work environment.

The integrated strategy of the Group is articulated around four priorities:

- **Customers first:** The Group strives to maintain a high level of customer satisfaction across all relevant dimensions, including scientific expertise, product delivery, customer

service, quality, project management and execution. It serves a growing number of customers and continuously invests in its infrastructure, its processes and workforce to meet customer expectations.

- **Drive innovation:** The value generation of the Group is closely linked to its leading-edge capabilities in providing its products and services effectively, efficiently, and responsibly. To that end it maintains a holistic innovation agenda to ensure its manufacturing and analytical capabilities stay at the forefront of technology. In particular, the Group collaborates actively with various universities, start-up companies and scientific institutions to access innovative technologies. An important element is the Group's ambition to implement green chemistry processes to reduce the environmental impact from manufacturing activities.

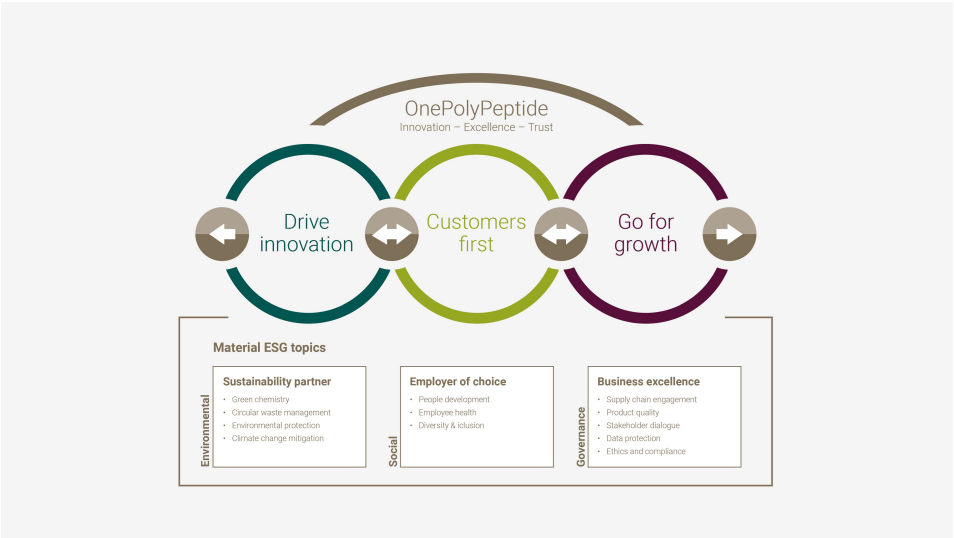
- **Go for growth:** PolyPeptide aims to continuously build its high-quality API development projects pipeline and to serve its customers throughout the lifecycle of their products. Given the strength of its late-stage development pipeline, the Group is substantially increasing its capital expenditures to meet expected growth. Upcoming patent expiries provide opportunities to further develop the peptide generics API business. With the decision to enter the emerging market for oligonucleotide-based API's, the Group aims to address unmet needs of customers, thus unlocking an additional avenue of growth.

- **Collaborate as "OnePolyPeptide":** The Group maintains a program to continuously optimize internal collaboration, seeking the right balance between local entrepreneurship and global coordination. PolyPeptide seeks to reinforce, continuously improve, and harmonize processes, systems and platforms across the Group, including for example digitalization, automation, cyber security, talent management, vendor qualification, risk management, and quality systems.

Recognizing the importance of environmental, social and governance (ESG) criteria as part of the daily business conduct, PolyPeptide adheres to fundamental principles of business ethics, corporate responsibility, and compliance. In 2021 it conducted an ESG materiality assessment to formalize earlier efforts and to define its ESG agenda (see chapter Corporate Responsibility).

Twelve material ESG topics were identified and will be managed as part of PolyPeptide's strategy. The Group thereby pursues a holistic approach to sustainability that includes reducing its environmental footprint, promoting continued improvement towards business excellence as well as strengthening the company as an employer of choice. The Group believes that the integration of the twelve material ESG topics into its strategy is the most effective way to meet both business needs and stakeholder expectations. In particular, the material ESG topics of green chemistry, people development and supply chain engagement are seen in the current development phase of the company as customer value enhancing and differentiating opportunities, building on the partnership-based culture of the Group.

PolyPeptide's integrated strategy



Scorecard and financial aspiration

The Group maintains a global balanced scorecard for supporting the implementation of its strategic agenda and for executive compensation purpose (see Remuneration Report). Besides the financial targets for revenue and adjusted EBITDA for a given period, the balanced scorecard includes quantitative goals for non-financial criteria. They are annually assessed by the Board of Directors and include "on time in full" (OTIF) delivery performance, quality, employee retention, Environment Health & Safety (EHS), customer feedback, innovation initiatives and critical project exectution.

PolyPeptide's sales growth in 2021 reached 26.5% and includes a favorable impact related to customer projects in response to the coronavirus pandemic. The Group communicated a medium-term aspiration to grow revenue with a "low teens" percentage increase versus the prior year and with an adjusted EBITDA margin of around 30%. It is currently in the process of updating its long-term strategic plan and will update its financial aspiration as appropriate. While prioritizing organic growth, PolyPeptide is open to opportunistic acquisitions, potentially to expand capacity, to broaden its geographic reach or to further strengthen its technological capabilities.

The company's goal is to provide a stable dividend to its shareholders, representing a pay-out ratio of between 20% and 30% of the Group's result for the year.

For the financial outlook for 2022, please refer to the Editorial and the Business Review.

Business Review

Strong growth momentum in 2021

Growth driven by custom projects

PolyPeptide generated EUR 282.1 million of revenue in 2021, representing growth of 26.5% versus 2020. The revenue increase was driven by PolyPeptide's custom projects that are in phase III of clinical development. This included a substantial contribution from the GMP production of two key intermediates used in the Matrix-M™ adjuvant component of the coronavirus vaccine developed by Novavax.

In 2021, the Custom Projects segment revenue increased by 63.9% versus 2020. PolyPeptide remained strongly committed to supporting the R&D pipeline of existing and new customers. As a result, the active custom projects pipeline continued to expand, reaching 196 projects at the end of 2021, of which 30 were in phase III. The pipeline covers a wide range of therapeutic areas, reflecting the increasing use of peptides across a diverse selection of therapeutic indications and medical conditions.

The Contract Manufacturing segment revenue declined by 10.5% driven by life cycle trends in some maturing products.

The Generics and Cosmetics segment revenue increased by 21.2%, given PolyPeptide's continued efforts to benefit from genericization. In 2021, the Group submitted 13 Drug Master Files (DMF) for generics (Gx) in new markets and nine new authorizations in major markets for customers to reference PolyPeptide's Gx filings.

Notwithstanding the doubling of manufactured volumes in 2021 versus 2020, PolyPeptide managed to further improve both, its overall on-time-in-full (OTIF) delivery performance to 95% (2020: 92%) and its net promoter score (NPS) to 75 (71)[1], also reflecting a continuously effective customer engagement.

[1] Based on interviews with ca. 100 customers in the context of an annual customer survey conducted by a 3rd party on behalf of PolyPeptide.

Increase in profitability

The gross profit in 2021 was EUR 103.8 million, up by 40.8% versus 2020, driven by a favorable product mix, a higher capacity utilization and improved labor productivity, with a gross margin of 36.8%, up by 3.8 percentage points.

EBITDA for the period was EUR 84.8 million. Excluding the adverse impact from one-off items, adjusted EBITDA was EUR 88.2 million, up by 42.4%, with an adjusted EBITDA margin of 31.3%, up by 3.5 percentage points.

The one-off adjustments were reported earlier with half-year results and included IPO costs of EUR 5.7 million, partly offset by income from US government loans of EUR 2.4 million waived in the context of the coronavirus pandemic.

The result for the year was EUR 47.3 million, up by 50.8%, driven by the increase in revenue and gross profit as well as reflecting a financial result of EUR -4.3 (2020: -6.7) million and income tax charges of EUR -12.6 (-6.4) million. The effective tax rate increased to 21.0% versus 16.9% in 2020, driven by higher non-capitalized tax losses in 2021 and stable R&D tax credits.

Accelerated capital deployment

To meet expected growth mainly from its late-stage phase III project pipeline, the Group accelerated infrastructure investments during the second half of 2021. Capital expenditures for the period reached EUR 76.7 million or 27.2% of revenue, versus EUR 48.2 million or 21.6% in 2020.

Investment projects include the construction of large-scale solid phase synthesis capacity in Braine-l'Alleud (Belgium), large scale downstream capacity in Malmö (Sweden), freeze drying capacity at several sites as well as product development and analytical capabilities. Investment projects also include the build-up of the oligonucleotide facility in Torrance (California) as well as IT infrastructure and digitalization efforts.

Larger infrastructure initiatives are typically implemented in close collaboration with customers to reduce the risk for PolyPeptide. Driven by pre-payments for future volume commitments from several customers, contract liabilities were up by 37.6% to EUR 46.0 million.

Total assets increased by 58.3% to EUR 595.0 million, also reflecting net cash inflows of EUR 172.3 million from the IPO and the listing on SIX Swiss Exchange on 29 April 2021. Inventories and trade receivables in proportion to revenue slightly decreased to 40.1% (2020: 42.3%) and 23.1% (24.0%), respectively.

The return on net operating assets for 2021 reached 21.0% versus 18.2% for 2020, reflecting the generally higher utilization of assets as evidenced by the operating result up by 44.6% and average net operating assets up by 25.7%.

Total equity as per the end of 2021 more than doubled to EUR 421.1 million with an equity ratio of 70.8% (47.3%). Cash and cash equivalents reached EUR 136.3 (17.2) million. With total financial debt of EUR 29.5 million, the net cash position of the Group was EUR 106.9 million as per the end of 2021, up from EUR -47.1 million at the end of 2020. Following the IPO, PolyPeptide refinanced an existing EUR 25 million term loan, which was repaid during the second half of the year.

The net cash flows from operating activities excluding the changes in net working capital were EUR 76.8 million. The net cash flow from the changes in net working capital was EUR -19.5 million, also reflecting record sales activities in December 2021. With net cash flows from acquisitions of intangible assets and property, plant and equipment of EUR -77.7 million, the free cash flow in 2021 amounted to EUR -20.4 million.

New capabilities in oligonucleotides

The Group's business strategy is articulated around the four priorities of "Customers first", "Drive innovation", "Go for growth", and "OnePolyPeptide" (see section Strategy). The growth ambition includes the expansion of the Group's capabilities beyond peptides into the emerging market of nucleic acid-based therapies, which is synergistic with peptides given the overlaps in development capabilities and manufacturing processes.

In 2021, a R&D and GMP pilot plant facility with a dedicated team was set up at the site in Torrance (California) and the first customer contract was signed towards the end of 2021. The Group's strategy is to build a portfolio of early-stage oligonucleotides custom projects and to develop the business and infrastructure with a long-term perspective.

Integrated ESG management

To incorporate the relevant environmental-, social- and governance-related aspects as part of its strategic priorities, PolyPeptide conducted an ESG materiality assessment in the second half of 2021. Twelve material ESG topics were identified (see section Corporate Responsibility).

The Group believes that the integration of the identified material ESG topics into its strategy is the most effective way to continuously improve and to meet both business needs and stakeholder expectations, ultimately to benefit the health of millions of patients around the world.

In particular, the search for greener manufacturing solutions is seen as a critical opportunity to improve process performance and reduce the environmental footprint. PolyPeptide has defined a comprehensive multi-faceted program to address this technically complex challenge, working with partners, including academic institutions, technology startups, and customers.

Organizational progress

With the IPO, a new Board of Directors was elected, along with the establishment of the Innovation and Technology, the Remuneration and Nomination and the Audit and Risk Committees. The leadership transition to Raymond De Vré, who was appointed CEO as of the first trading day on SIX Swiss Exchange on 29 April 2021, was completed during the first-half reporting period.

In June 2021, PolyPeptide announced the creation of a General Counsel position at the Executive Committee level and appointed Christina Del Vecchio, who started in her role at the beginning of September 2021. On 1 December 2021, PolyPeptide announced the appointment of Neil Thompson as Director Global Sales and Marketing and member of the Executive Committee as internal successor to Jan Christensen, who stepped down from his role as per the beginning of 2022. Jan Christensen will support selected business development projects before retiring towards the end of 2022.

Effective 1 January 2022, the PolyPeptide Management Committee (PMC) was established as an extension to the Executive Committee (EC) to coordinate the implementation of the Group's integrated strategy more effectively. This was supported by the strengthening of the overall organization, including new Group-wide responsibilities for Quality, integrated Development as well as Employee Health & Safety (EH&S).

Risk management and internal audit

PolyPeptide is committed to continuously improve its controls, processes and strategies to manage the risks associated with its activities. Within its integrated strategy it pursues a holistic approach with the ambition to not only prevent or minimize the impact from unexpected events on the business or the performance, but also to benefit from new opportunities that might arise.

Following the listing in April 2021, PolyPeptide initiated various initiatives to assess, evaluate and mitigate key risks, including those resulting from the growth of the business and the complexity of its operations, also taking into consideration financial, legal, IT and sustainability aspects. The Group plans for an annual risk assessment report to be submitted at least once per year to the Audit and Risk Committee and to be presented to the Board of Directors.

The risk assessment report will be designed to provide a consistent, Group-wide perspective of the key risks as well as other risks identified within the Enterprise Risk Management Framework, which was initiated during the second half of 2021 by the Audit and Risk Committee together with the CFO organization (for a description of the Enterprise Risk Management Framework refer to the Corporate Governance Report).

Employees and people development

As per the end of 2021, the headcount of PolyPeptide was 1,101, with average full-time equivalents up by 14.4% to 1,041 (910). To support growth, most of the new hires were in the manufacturing, process development and quality functions.

Consistent with its integrated strategy and ESG agenda, the Group decided to put a particular focus on people development going forward. Building on robust training procedures at site-level that ensure compliance with GMP requirements and earlier leadership development programs, PolyPeptide aims at further strengthening the Group-wide processes to hire, train and develop talent, particularly for middle management positions.

Dividend

With basic earnings per share of EUR 1.47, the Board of Directors will propose to the Annual General Meeting on 26 April 2022 a cash distribution of CHF 0.30 per share, representing a pay-out of CHF 9.9 million or 20.3% of the result for 2021, which is consistent with PolyPeptide's dividend policy of a pay-out ratio of between 20% and 30% of the result for the year.

Outlook for 2022

Building on its core values of “innovation”, “excellence”, and “trust”, PolyPeptide strives to be the preferred long-term partner for all its customers. With a relentless focus on quality and high delivery performance, it plans to further develop its capacities and capabilities. While being focused on meeting customer expectations and on delivering on its integrated strategy, the Group is currently in the process of updating its long-term business plan.

For 2022, PolyPeptide targets revenue growth of 12-14% versus 2021 with a targeted adjusted EBITDA margin of around 30%. It will continue to invest in modernizing and expanding its infrastructure with capital expenditures as percent of 2022 revenue expected to be above 25%.

Corporate Responsibility

Corporate Responsibility

ESG governance

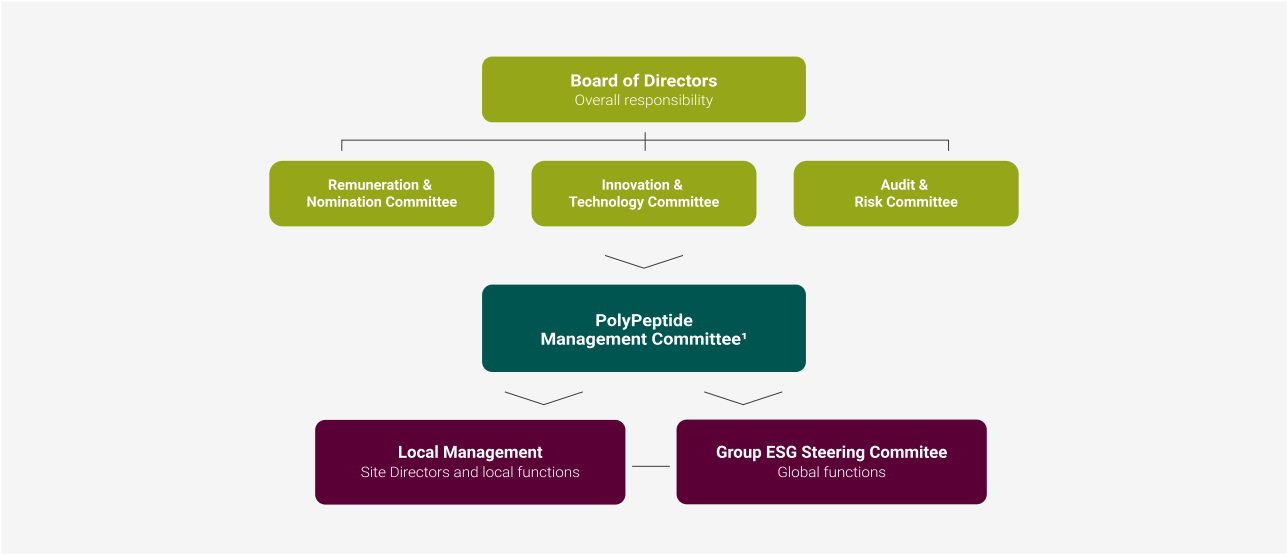
PolyPeptide strives to adhere to fundamental principles of business ethics, corporate responsibility, and compliance as laid out in the company's Code of Conduct. Building on its core values of innovation, excellence, and trust, PolyPeptide pursues an integrated strategy (see chapter Strategy) to incorporate the material environmental, social and governance (ESG) aspects as part of its strategic priorities.

With the IPO and the listing on SIX Swiss Exchange in April 2021, PolyPeptide implemented a governance structure consistent with the Swiss Code of Best Practice for Corporate Governance issued by economiesuisse and international requirements (also see Corporate Governance Report). A new Board of Directors was elected, along with the establishment of the Innovation & Technology, the Remuneration & Nomination, and the Audit & Risk Committees. In the second half of 2021, the Group also created the position of General Counsel at the level of the Executive Committee, and towards the end of the year further reinforced the overall organization, including new global responsibilities for Quality as well as Employee Health & Safety (EH&S). Effective 1 January 2022, the PolyPeptide Management Committee (PMC) was established to ensure the effective implementation of the Group's integrated strategy.

At PolyPeptide, the overall ESG responsibility lies with the Board of Directors. In the second half of 2021, the Group with support of Finch & Beak, a specialized advisory firm, conducted an ESG materiality assessment following a structured process aligned with applicable standards. As a result of this process, twelve material ESG topics were identified. The Board of Directors assigned these topics to its committees, approving the integrated strategy approach and setting the Group's ESG agenda.

The responsibility for the implementation of the Group's ESG agenda has been delegated to the PolyPeptide Management Committee and the ESG Steering Committee. In line with the strategic priority to foster collaboration as "OnePolyPeptide", a Group-wide approach is pursued, building on the solid groundwork laid at each site in previous years. All relevant functions are represented in the ESG Steering Committee and each material ESG topic has been assigned to the manager of the respective global function in order to make sure that the ESG aspects are adequately reflected within the functional plans and in the day-to-day local activities.

PolyPeptide ESG governance



[1] As of 1 January 2022.

ESG materiality assessment

PolyPeptide conducted its materiality assessment in a five-step process in a cross-functional working group that included global function heads and selected Executive Committee members.

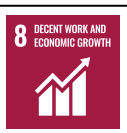
The first step consisted of a comprehensive desk research on relevant ESG trends, current and emerging regulations as well as applicable rating and reporting standards, complemented by a peer analysis. This resulted in a list of all sustainability-related topics. Secondly, duplicates were removed and overlapping topics were clustered. The resulting long list of topics was discussed with the working group in order to incorporate feedback and include missing topics. In a third step, the list was further evaluated by the working group for risks and opportunities. This provided first insights on the outside-in impact of ESG topics on PolyPeptide.

In the fourth step, the stakeholder relevance was assessed through interviews with internal stakeholders. This was followed by the fifth and final step with an internal workshop session in which the working group assessed both, the outside-in impact (financial materiality impact) and the inside-out impact (societal materiality impact), also to comply with the concept of double materiality. Along the process, feedback on materiality and all definitions were requested and validated.

As the result, a total of twelve material ESG topics were identified with clear definitions derived from applicable standards and with reference to the United Nations Sustainable Development Goals (SDGs; see table below). PolyPeptide endorses the UN Agenda 2030 and considers the SDGs launched in 2015 as an important reference point to determine and manage its own material ESG topics. Fully acknowledging the comparably limited size and impact of its business, PolyPeptide through its integrated strategy still aims to contribute to the agenda of the world community.

Material ESG topics definition and SDG reference

Topic	Definition at PolyPeptide	SDG[1]	SDG target
Business ethics and compliance	Complying with applicable laws and conducting business with high ethical standards. This includes topics such as corruption and bribery, political contributions, taxation, transparency, as well as anti-competitive practices.	–	–
Circular waste management	Minimize waste generation and resulting pollution, such as wastewater discharge, incineration and landfilling, by engaging in circular waste management practices such as re-designing production processes, use materials more effectively, reducing the use of scarce raw materials, and engaging in reuse, recycling, repurposing, remanufacturing, and chemical recovery of waste.		12.4 12.5
Climate change mitigation	Adopting internal procedures to avoid combustion and fugitive emissions to reduce Scope 1 GHG emissions. Sourcing energy from renewable resources to reduce Scope 2 emissions and reducing Scope 3 emissions such as from suppliers, purchased goods and services and their transportation, as well as work-related travel, leased assets and investments.		13.1 13.2
Data protection	Running a secure and up-to-date digital environment to safeguard the privacy of employees, customers and suppliers, as well as of sensitive intellectual property, product, and, business information.	–	–

Diversity and inclusion	Hiring, promoting and including individuals from different genders and underrepresented social groups. Enabling every employee to perform at their best by ensuring equal pay for equal work, adopting a zero-tolerance policy towards discrimination and creating a fair, inclusive and mutually respectful working environment.		5.1 5.5
			8.5
Environmental protection	Prevent any form of accidental pollution, such as chemical spills, poisonous fugitive emissions and explosions, that have a damaging effect on the surrounding environment and biodiversity. Assessing the local environment in terms of water scarcity, land use and nearby biodiversity areas when considering site expansions. Conserving water, energy and other local natural resources.		3.9
			7.3
			8.4
			12.2
Employee safety	Ensuring the health and safety of employees by providing a contained environment and safety trainings as well as encouraging employees to report on incidents and near misses to constantly improve safety protocols.	–	–
Green chemistry	Applying the principles of green chemistry to produce process innovations and products with a lower environmental footprint. This includes reducing solvents in the production, as well as phasing out hazardous and substances of concern. Partnering with universities, industry organizations and other parties to engage in shared innovation and further advance the industry in a responsible manner.		9.4 9.5
			12.4
Product quality	Ensuring high quality and safety of products. This includes following good manufacturing practices (GMP), receiving approval from regulatory agencies such as the US FDA, customer audits and internationally recognized certification standard such as ISO.		3.8
People development	Attracting the right talent needed to further grow our business operations. Providing employees with trainings and opportunities for growth, as well as respecting their needs and a healthy work-life balance in order to ensure employee retention.	–	–
Stakeholder dialogue	Engage in a solution-oriented dialogue with stakeholders on a regular basis in order to identify risks and solve issues before they become financially material. Enabling employees to give back to local communities through corporate citizenship programs.	–	–
Supply chain engagement	Actively working with suppliers to ensure responsible environmental and human rights practices as set out in the Supplier Code of Conduct. This includes holding collaborative sessions to identify, monitor		8.7

	and mitigate risks, offering a whistleblower hotline, as well as setting targets and applying due diligence mechanisms to new business relations.

[1] For details, refer to https://sdgs.un.org/goals; icons for informational purpose only.

Integrated ESG management

The twelve material ESG topics have been clustered under the headings of "Sustainability partner", "Employer of choice" and "Business excellence" and will be managed as integral part of PolyPeptide's strategy. The Group believes that the integration of the identified material ESG topics into its strategy is the most effective way to continuously improve and to meet both business needs and stakeholder expectations, ultimately to benefit the health of millions of patients around the world. PolyPeptide thereby aims for long-term partnerships, with the material ESG topics of green chemistry, people development and supply chain engagement seen as particular customer value enhancing and differentiating opportunities.

As part of its ESG agenda, the Group plans to consistently report on ESG matters, benefiting in many relevant areas from the groundwork laid over recent years, for example:

- **Green chemistry:** The search for green solutions has been seen for several years as an opportunity to improve process performance and to reduce the environmental footprint of the Group's activities. To that end, it set up an innovation program focused on green peptide manufacturing, including the reduction and recycling of its solvent consumption across the Group or its replacement or even avoidance through green solvents or solvent-free technologies. As part of an effort launched in 2019, PolyPeptide identified optimization opportunities, for example in the resin rinsing steps that are responsible for over 75% of the solvent used in the production of peptides by Solid Phase Peptide Synthesis. By introducing innovative practices, the amount of solvent used for the rinsing of the resin can be reduced by up to 70% compared to the standard way of operating the reactor. PolyPeptide communicated its findings in scientific publications and seeks to expand the application of green manufacturing techniques in customer projects. It is currently preparing metrics to measure and report implementation progress from 2022 onwards.
- **People development:** To support growth, PolyPeptide has extensive hiring efforts ongoing. As per the end of 2021, the headcount of PolyPeptide was 1,101, with average full-time equivalents up by 14.4% to 1,041 (910), with most of the new hires in the manufacturing, process development and quality functions. An inaugural global employee survey was conducted in March 2021 with a participation rate of 77% of employees, yielding overall good results with valuable insights for further improvements. Building on robust training procedures at site-level that ensure compliance with GMP requirements and leadership development programs, PolyPeptide aims at further strengthening the Group-wide processes to hire, onboard, train and develop talent, particularly for middle management positions.
- **Supply chain engagement:** PolyPeptide's Supplier Code of Conduct, which is available on the corporate website, was introduced in 2018 as an integrated part of all supply agreements. It is based on the principles of the United Nations Global Compact and sets out the requirements expected from suppliers in respect of ethics, freely chosen employment, labor, wages and working hours, health and safety, environment, and management systems. As part of these requirements, suppliers shall recognize and be committed to upholding the human rights of their employees and treat them with dignity and respect as understood by the international community. The Group audits the suppliers with focus on quality and criticality, and it plans to further develop and refine its audit model with regard to ESG considerations such as human rights, environmental protection, and health and safety of employees. With this, it also aims to reflect emerging regulations, including non-financial reporting obligations in Switzerland which will apply for the first time with respect to the financial year 2023. By strengthening the supplier performance evaluation program for the Group, PolyPeptide believes that it can also further strengthen supplier relationships and performance.

PolyPeptide sees the ESG materiality assessment and the implementation of a robust ESG governance as the formalization and strengthening of efforts that started a few years ago.

For example, the sites manage their environmental, health and safety (EH&S) performance at local level, with relevant consolidated performance indicators being part of the Group's balanced scorecard. The Group achieved its goals for 2021with less than one lost time incident per 100 employees and zero reportable environmental incidents. The environmental management system to identify, manage, control and monitor environmental impact at the site in Braine-l'Alleud (Belgium) reached the ISO14001 certification in 2021.

The Group uses the sustainability rating services of EcoVadis whose methodology covers a broad range of non-financial matters, including the protection of the environment or the consideration of social and ethical aspects in the business conduct. Starting with a rating for the production sites in Malmö (Sweden) and Braine-l'Alleud in 2019, the coverage was gradually expanded covering four out of the six GMP manufacturing sites in 2021. In 2021, the site in Torrance (California, USA) was awarded a silver rating, which currently also is the rating for the sites in Malmö, Braine-l'Alleud, and Strasbourg (France).

In the fourth quarter of 2021, PolyPeptide conducted a global Code of Conduct e-learning program to reinforce the rules and behaviors for day-to-day business and to protect employees and the interests of the company. By the end of 2021, 98% of online trainings had been completed.

Efforts in 2021, also in context of the IPO, included the implementation of a Trading Policy as well as a Disclosure Policy with new Communications Guidelines. In addition, a whistleblower program has been established to detect corrupt, illegal, or other unethical conduct and to protect the global reputation of the Group. It includes an independent 24/7 hotline in three languages operated by an independent third-party service provider.

ESG agenda

The Board of Directors mandated an ESG implementation plan with specific tasks for 2022, with progress to be reported going forward:

- As part of the integrated strategy, the planning of the relevant global functions shall be made more standardized to include the twelve material ESG topics with their performance indicators for management and reporting purposes.
- For the three material ESG topics of green chemistry, people development and supply chain engagement, specific strategies with targets shall be developed by the end of 2022, possibly leading to a further amendment of the Group's balanced scorecard used for the evaluation of management performance.
- PolyPeptide plans to conduct in 2022 a CO_2 footprint assessment for the manufacturing sites in Braine-l'Alleud and Malmö, using the GHG greenhouse gas protocol as standard, and subsequently integrating the other sites. For this effort, PolyPeptide can build on the experience gained at the site in Braine-l'Alleud, which joined in 2010 a regional initiative to support Belgium's strategy against global warming. A ten-year action plan was implemented with goals set for 2023 versus the baseline from 2010. The Group is confident to over-achieve the set goals, thereby improving energy efficiency in Braine-l'Alleud by more than 20%[1].
- With regards to environmental protection and employee health, the Group, also in the context of its strategic priority of "OnePolyPeptide", aims to further align and standardize its current processes across all sites. It plans to certify all sites according to ISO14001 for environment management systems and ISO45001 for occupational health and safety over the next four years.
- The Group plans to expand its coverage of the sustainability rating by EcoVadis to all of the six manufacturing sites by 2023. Building on the current silver ratings achieved for the four sites in Malmö, Braine-l'Alleud, Strasbourg and Torrance, the sites in San Diego (California, USA) and Ambernath (India) will be integrated in the scope of the EcoVadis assessment.
- PolyPeptide plans to engage in 2022 with the Pharmaceutical Supply Chain Initiative (PSCI) for the site in Malmö, and to evaluate a step-by-step integration of its additional sites.

[1] According to the "Méthodologie des accords de branche de deuxième génération de l'industrie wallonne. Rév2 – Mars 2016".

In pursuing these activities, PolyPeptide seeks continuous improvement through a pragmatic, though effective and integrated approach. Taking into consideration the complexity of the business and the still emerging requirements, this first Corporate Responsibility Report has not been prepared in accordance with any recognized standards and has not been externally assured. The company plans to decide during 2022 on an ESG reporting standard to be implemented for the financial year 2023 and to be published in 2024.

Abbreviations

API – Active Pharmaceutical Ingredient

APM – Alternative Financial Performance Measure

CAGR – Compound Annual Growth Rate

CDMO – Contract Development and Manufacturing Organization

CMC – Chemistry, Manufacturing & Controls

EH&S – Employee Health & Safety

ESG – Environmental, Social and Governance

FTE – Full-time equivalent

GMP – Good Manufacturing Practice

ICH – International Council for Harmonization

IPO – Initial Public Offering

LCM – Life Cycle Management

NDA – New Drug Application

PPQ – Process Performance Qualification

SIX – SIX Swiss Exchange

Operational indicators

As part of our financial disclosure we report revenue from our custom projects segment, and we occasionally make implicit or explicit reference to the underlying project pipeline as an indicator to measure operational performance. This includes the number of projects in total or in categories. Our project count for a given period includes only projects that are invoiced to our customers. Projects with parallel activities at more than one site, or which are transferred from one site to another, or which included multiple peptides are counted as one project. The synthesis or one-time manufacturing of small quantities of peptides, mostly for research or academic use, is not considered as a project.

Our reference to

- **pre-clinical projects** includes non-GMP manufacturing for the lead candidate selection, and subsequent non-GMP manufacture of the selected API for pre-clinical and toxicological studies;
- **phase I and phase II** projects include GMP manufacturing of the API for phase I and II clinical trials, including stability studies, process and analytical development as well as regulatory documentation;
- **phase III projects** includes GMP manufacturing of an API for the use in phase III clinical trials, including process validation (manufacturing of PPQ batches) and analytical methods validation as well as regulatory documentation (NDA filing support).

Active custom projects include (i) projects with ongoing manufacturing activities, (ii) projects with ongoing non-manufacturing activities (development, analytical services, regulatory, stability studies), (iii) projects with open orders in the Group's accounting system pending to be delivered, and (iv) projects that are active at the customer's end, but not necessarily active at PolyPeptide (i.e., when the customer is conducting pre-clinical or clinical studies, formulation studies, etc.).

As part of an annual customer survey commissioned to a third party, PolyPeptide systematically monitors customer-related performance indicators, including the Net Promoter Score (NPS). It is considered to be a key metric that allows to track promoters and detractors within the customer base and to measure the organization's performance through its customers' eyes. The calculation of the NPS starts with the question “How likely are you to recommend us to a friend or colleague?” and score the answers on a zero-to-ten scale. The NPS is the percentage of customers who are promoters (those who scored 9 or 10) minus the percentage who are detractors (those who scored 0 to 6).

Alternative Financial Performance Measures (APM)

Adjusted EBITDA: EBITDA adjusted for non-recurring expenses or income to better reflect the underlying performance of the business.

Adjusted EBITDA Margin: Adjusted EBITDA as a percentage of revenue.

Capital expenditures (Capex): Investments in property, plant and equipment assets and intangible assets capitalized during a reporting period.

EBITDA: Operating result (EBIT) plus depreciation, amortization and impairment charges (if any).

EBITDA Margin: EBITDA as a percentage of revenue.

Equity ratio: Equity at the end of the period divided by Total assets at the end of the period.

Free Cash Flow (FCF): Net cash flows from operating activities less cash paid for acquisition of intangible assets less cash paid for acquisition of property, plant and equipment assets.

Gross Margin: Gross profit as a percentage of revenue.

Headcount: Number of people employed by PolyPeptide at the time indicated (i.e. excluding contractors).

Net Cash: Cash and cash equivalents less interest-bearing loans and borrowings less lease liabilities less other financial liabilities.

Net operating assets: The sum of Non-current assets plus Current assets less Cash and cash equivalents less Current liabilities.

Operating result (EBIT): Earnings before total financial result and income tax charge.

Proposed cash distribution per share: Proposed cash distribution divided by total number of outstanding shares as at 31 December

Return on net operating assets (RONOA): Last twelve months Operating result in percent of average Net operating assets.

Reconciliations

Operating result to EBITDA and Adjusted EBITDA

kEUR	2021	2020	2019
Operating result	64,165	44,378	33,549
Depreciation, amortization and impairment charges (if any)	20,683	17,545	15,808
EBITDA	**84,848**	**61,923**	**49,357**
Government loans waived	-2,370	0	0
IPO consultancy services	1,381	0	0
IPO cash bonus	1,342	0	0
IPO share bonus	2,998	0	0
Equipment damage provision	0	-489	1,700
Costs related to the IPO	0	524	0
Adjusted EBITDA	**88,199**	**61,958**	**51,057**

Return on net operating assets (RONOA)[1]

kEUR	2021	2020	2019
Operating result (EBIT)	64,165	44,378	33,549
Average[2] Net operating assets:			
Total non-current assets (average)	229,773	179,293	152,525
Total current assets (average)	255,734	161,266	141,960
Cash and cash equivalents (average)	-76,756	-17,358	-13,773
Total current liabilities (average)	-102,905	-79,893	-60,941
Average Net operating assets	305,847	243,309	219,771
Return on net operating assets (RONOA)	**21.0%**	**18.2%**	**15.3%**

[1] For 2018, the Average Net operating assets was kEUR 203,029 and RONOA was 13.7%.

[2] The average amounts are calculated as: (Current year's figures + last year's figures) / 2.

Proposed cash distribution per share

	2021	2020	2019
Result for the year (kEUR)	47,258	31,335	25,737
Proposed pay-out ratio (%)	20.3%	0.0%	0.0%
Proposed cash distribution (kEUR)	9,613	–	–
Exchange rate (EUR/CHF)	0.97	–	–
Proposed cash distribution (kCHF)	9,931	–	–
Number of outstanding shares as at 31 December ('000)	33,105	–	–
Proposed cash distribution per share (CHF)	**0.30**	**–**	**–**

Free Cash Flow

kEUR	2021	2020
Net cash flows from operating activities	57,352	49,482
Acquisition of intangible assets	-3,747	-2,580
Acquisition of property, plant and equipment	-73,961	-40,621
Free Cash Flow	**-20,356**	**6,281**

Net Cash

kEUR	2021	2020
Cash and cash equivalents	136,303	17,208
Interest-bearing liabilities (Total financial debt):		
Interest-bearing loans and borrowings (Non-current)	0	-25,000
Lease liabilities (Non-current)	-14,947	-10,454
Other financial liabilities (Non-current)	-10,302	-16,697
Lease liabilities (Current)	-3,058	-1,979
Other financial liabilities (Current)	-1,145	-10,199
Interest-bearing liabilities (Total financial debt)	-29,452	-64,329
Net Cash	**106,851**	**-47,121**

Legal Note

Cautionary statement on forward-looking information: This report has been prepared by PolyPeptide Group AG and includes forward-looking information and statements concerning the outlook for the Group's business. These statements are based on current expectations, estimates and projections about the factors that may affect the Group's future performance. These expectations, estimates and projections are generally identifiable by statements containing words such as 'expects', 'believes', 'estimates', 'targets', 'plans', 'outlook' or similar expressions.

There are numerous risks, uncertainties and other factors, many of which are beyond PolyPeptide Group AG's control, that could cause the Group's actual results to differ materially from the forward-looking information and statements made in this annual report and that could affect the Group's ability to achieve its stated targets. The important factors that could cause such differences include, among others: relationships with employees, customers and other business partners; strategies of competitors; manufacturing capacity and utilization; quality issues; supply chain matters; legal, tax or regulatory disputes; and changes in the political, social and regulatory framework in which the Group operates, or in economic or technological trends or conditions. Although PolyPeptide Group AG believes that its expectations reflected in any such forward-looking statement are based upon reasonable assumptions, it can give no assurance that those expectations will be achieved.

Alternative Financial Performance Measures (APM): This report contains references to operational indicators, such as customer projects, and APM that are not defined or specified by IFRS, including EBITDA, adjusted EBITDA, adjusted EBITDA margin, net operating assets, return on net operating assets, capital expenditures, equity ratio, net working capital, free cash flow, net cash and total financial debt. These APM should be regarded as complementary information to and not as substitutes of the Group's consolidated financial results based on IFRS. These APM may not be comparable to similarly titled measures disclosed by other companies. For the definitions of the main operational indicators and APM used, including related abbreviations, as well as for selected reconciliations to IFRS, refer to the section "Definitions and reconciliations" in this report.

For the purposes of this report, unless the context otherwise requires, the term "the Company" means PolyPeptide Group AG, and the terms 'PolyPeptide', 'the Group', 'we', 'us' and 'our' mean PolyPeptide Group AG and its consolidated subsidiaries. In various tables, the use of '-' indicates not meaningful or not applicable.

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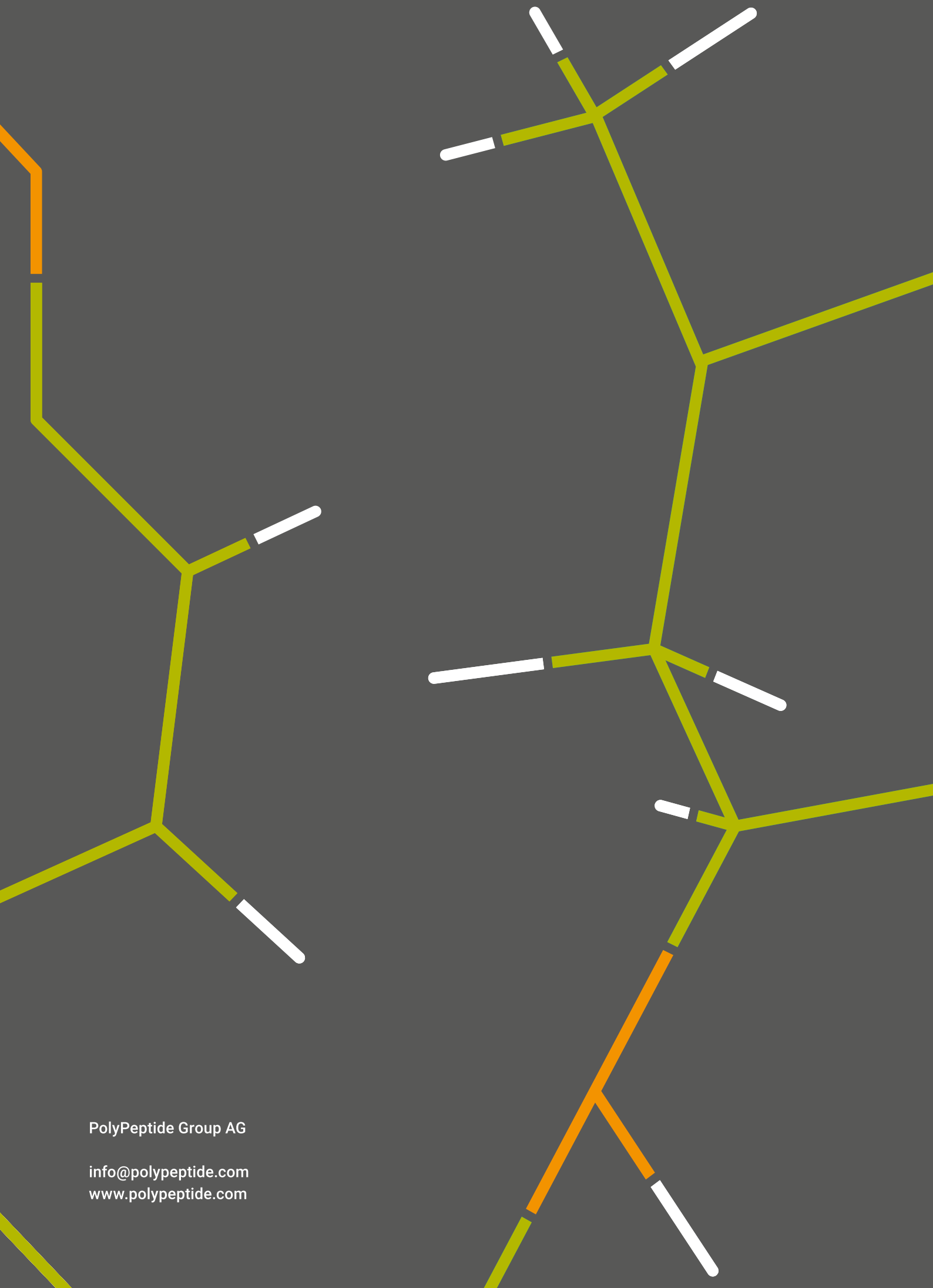

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